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6th Annual

Study of

Security

and Loss

Prevention

Procedures

in Retailing

1984

CONDUCTED FOR NMRI BY

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The NMRI is an association representing more than 450 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables for groups that include executives involved in:

- Annual merchandising and management conventions
- Top management
- Financial management
- Advertising and promotion
- Loss prevention
- Personnel
- Government affairs

Communications about NMRI—and requests for additional copies of this study—should be directed to its president, Richard I. Hersh, at the association's headquarters: 570 Seventh Avenue, New York, NY 10018.

Arthur Young

Arthur Young is an international accounting and consulting firm. Through its National Retail Group, the firm specializes in providing accounting, tax, and management consulting services to executives and companies in the retail industry. Arthur Young has offices in 85 cities in the United States and 350 cities in 66 other countries. Questions or comments for Arthur Young should be addressed to either of the following:

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Security and Shrinkage

Annual Study of Security and Loss-Prevention Procedures in Retailing Conducted for the National Mass Retailing Institute by Arthur Young

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December 1984

Dear Reader:

We are pleased to present the results of the Sixth Annual Study of Security and Loss-Prevention Procedures in Retailing, sponsored by the National Mass Retailing Institute. This year's study shows that retailers augmented their security expenditures by a substantial 18% last year and increasingly used high technology to fight pilferage. We continue to round out the profile of the apprehended thief and have gained some insight into high- and low-shrinkage cities and regions. To provide further understanding of what this information really means to retailers, we have included actual case histories of how companies are turning to better equipment and systems to cope with both internal and external theft. Once again, we have broken down results to report the data by type of retailer, size of company, and shrinkage level to help you compare your company's loss-prevention operations and level of success with others of similar size and category.

This year's report includes some of the following major results:

SHRINKAGE PATTERNS

- Participants report a 10% decrease in inventory shrinkage from 1982 to 1983—from 2.1% of sales to 1.9%.
- Department stores again report the highest shrinkage percentage, followed by mass merchants and specialty stores. The larger retail chains appear to be getting better results than small chains from their loss-prevention programs.
- Clothing, jewelry, and health-and-beauty aids continue to lead the high-shrinkage list.

PROFILE OF THE APPREHENDED THIEF

- This year's report confirms last year's indications that the "typical" apprehended shoplifter or employee thief is as likely to be male as female; nearly three-fourths of all apprehensions are customers, the highest percentage of whom are young adults, 18 to 35 years old.

PROSECUTION POLICIES

- While apprehensions decreased by 3% this year, the rate of prosecutions and convictions increased by 2%.

SHRINKAGE-PREVENTION MEASURES

- Participating retailers say they spend nearly 20% of their loss-prevention budgets for electronic tags and other electronic equipment, such as pinhole cameras and split-screen monitor systems.
- Devices retailers consider most effective are led by electronic tags and guards. Devices they report as being least effective are: mirrors and visible TV cameras.
- Nearly 90% of all participating retailers use background checks to screen security personnel.
- Eighty percent report having either a reward or recognition system for employees who help improve loss prevention.

The information presented in this study was obtained from questionnaires completed by retail organizations and tabulated by computer. We invite you to send us comments or suggestions for next year's loss-prevention survey.

Very truly yours,

Arthur Young & Company

by: Errol M. Cook
Stephanie M. Shern
Co-chairmen, National Retail Group

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Introduction

This report is the sixth in a series of loss-prevention studies conducted by Arthur Young under the sponsorship of the National Mass Retailing Institute (NMRI). The information is designed to assist the retailer to develop new loss-prevention programs and to evaluate those currently in practice. While this year's study continues to report shrinkage statistics, it also focuses more on loss-prevention trends in the retail industry and offers useful examples and ideas.

For purposes of this study, the following definitions apply:

- Mass Merchants

  Discount, general merchandise, drug, and variety chains with multiple departments, central checkout, and limited selling staff.
- Department stores

  Multidepartmental retailers offering departmental checkout with highly visible selling service. This includes specialty stores with the principal characteristics of department stores.
- Specialty stores

  Few departments with central checkout, generally with 7,500 square feet or less of selling space.

The study was conducted during the summer and fall of 1984. The information is generally based on fiscal 1983 data.

Unless otherwise indicated, all references to 1982 results were collected from responses to this year's survey questionnaire. Differences may occur between results reported a year ago for 1982 versus results collected this year for 1982 due to the changing survey population from one year to the next.

Questionnaires were mailed to retail companies from lists compiled from a variety of sources. The identities of the respondents have been kept confidential. These findings represent data submitted by the participating retail organizations only, and it is not necessarily statistically valid to use them to make projections about the entire retail industry.

Because of a lack of sufficient response in some cases, tables and narrative reporting responses to every question on the original questionnaire may not be included. Additional details relating to specific questions will be provided on request if possible.

Again this year, we have integrated the tables and graphs into the text of the report to facilitate understanding of the material. While the text highlights and interprets the survey findings, the tables provide more detailed statistics. We also have included short vignettes of actual case histories to illustrate the findings. The identities of the retailers in these stories have been deleted to protect their confidentiality.

Where multiple responses to questions were permitted, the tables do not add up to 100%. All percentages have been rounded to the nearest whole number, except where the percentage was less than 1.0%.

The report on food retailers appears in a separate section (Appendix I). Data used to compile food-store findings and statistics are not included in the main body of this report.

The Participants

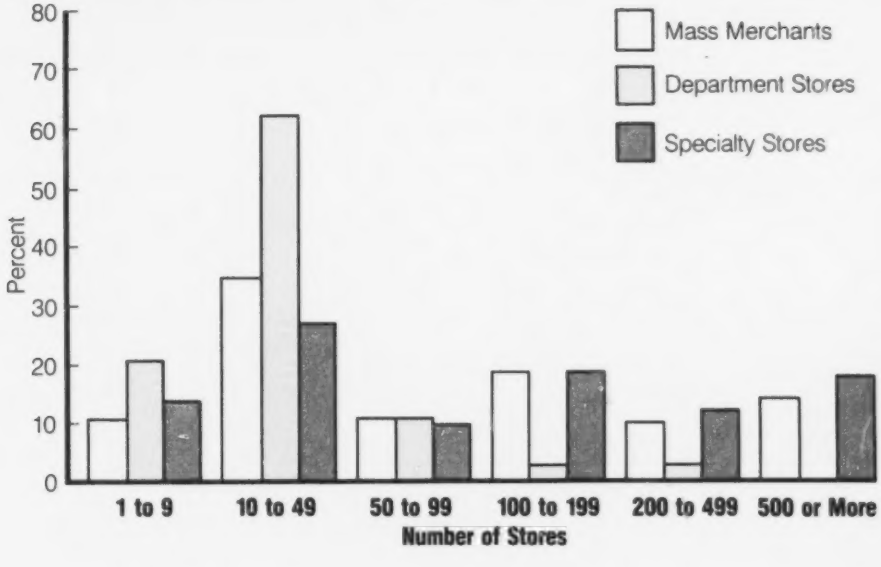
The 176 retail organizations participating in this year's study operate in more than 33,600 locations with total sales of more than $109 billion. Eighty-eight mass merchants with more than 21,000 locations participated this year. Their aggregate 1983 sales volume was in excess of $92 billion. This year's participants also include 37 department-store chains in nearly 1,400 locations with 1983 sales of more than $10 billion, and 51 specialty-store companies in almost 11,000 locations with sales of $6.5 billion. (The term "stores" used in this report refers to companies, except when denoting specific numbers of stores.)

Table 1
The Participants

	Number of Companies	Number of Stores	Sales Volume ($ Billions)
Mass Merchants	88	21,404	$ 92.4
Department Stores	37	1,397	10.4
Specialty Stores	51	10,851	6.5
Total	176	33,652	$109.3

Almost half of the respondents (48%) had more than 50 store locations; 12% had at least 500 stores. As expected, mass merchants and specialty-store companies had more store locations than did department-store chains. More than 40% of both the mass merchants and the specialty stores had at least 100 store locations. By comparison, more than 90% of the reporting department stores had fewer than 100 locations.

Graph A
Analysis of Participants by Number of Stores



Nearly 60% (103) of the participants report 1983 sales in excess of $100 million, while 39% (69) had sales of $100 million to $499 million. For 1982, 53% of the participants report sales greater than $100 million, and 35% had sales of $100 million to $499 million.

Table 2
Number of Participants by 1983 Sales Volume of Participating Companies

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Under $10 Million	2	0	2	4
$10 to $49 Million	12	2	14	28
$50 to $99 Million	14	12	15	41
$100 to $499 Million	34	17	18	69
$500 Million and Over	26	6	2	34

Seventy percent of the participants report operating at least half of their stores in suburban locations. This is true of 71% of the mass merchants, 72% of the department stores, and 68% of the specialty stores.

Table 3
Percentage of Participants by Store Locations

	Mass Merchants	Department Stores	Specialty Stores	All Participants
100% Urban	11%	17%	16%	14%
1% to 49% Suburban	18	11	16	16
50% to 74% Suburban	17	17	19	17
75% to 99% Suburban	26	50	35	34
100% Suburban	28	5	14	19

Shrinkage Results

Study participants report inventory shrinkage to be, on average, 1.9% of sales for 1983. This is a 10% decrease from the 2.1% reported by the same participants for 1982. When examining shrinkage by retail segment, average levels decreased for department stores from 2.5% in 1982 to 2.1% in 1983 and specialty stores from 2.0% in 1982 to 1.6% in 1983. Mass merchants report a continuation of their 2.0% level of shrinkage.

Interviews with retailers and analysts indicate the overall drop in shrinkage may be attributed to the easing of the 1982 economic recession and the heightened awareness that retailers have developed in utilizing shrinkage control techniques; security expenditures (discussed in detail later in the "Loss-Prevention Expenditures and Methods" section) increased dramatically this year.

Table 4
Shrinkage Results by Retail Category

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Percentage of Shrinkage 1983	2.0%	2.1%	1.6%	1.9%
Percentage of Shrinkage 1982	2.0	2.5	2.0	2.1
Amount of Shrinkage 1983 ($ Millions)	$1,800	$200	$100	$2,100

Larger companies in this year's survey appear to have lower shrinkage levels. On average, companies with sales of $500 million or greater report shrinkage of 1.9% compared to companies with under $100 million in sales, which report shrinkage of 2.0%.

In 1983, shrinkage cost participating companies nearly $2.1 billion. Retailers providing information on high-shortage departments indicate they suffered highest losses in clothing, jewelry, and health-and-beauty aids. These findings may reflect both the resale value and personal-use attractiveness of the items. Such information on high-risk areas should prove useful for retailers planning merchandising and display activities. This would include security programs for distribution-center and/or central stock areas.

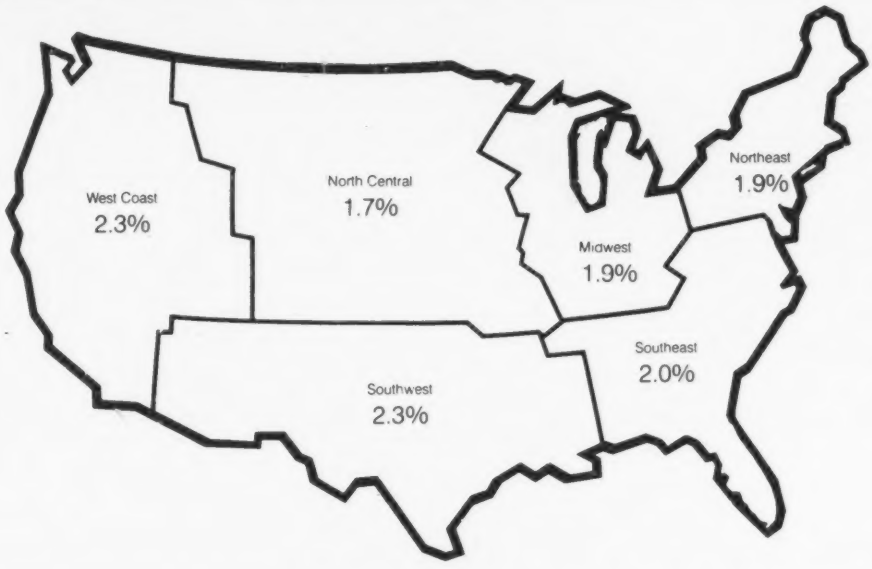
Reported shrinkage results can be affected by including or excluding certain items, such as markdowns, damages, and known theft or loss. Most retailers account for and control markdowns separately through the Retail Inventory Method. However, some retailers' systems do not allow them to capture all markdown data separately, and, therefore, their shrinkage figures include markdown losses. We have gathered some insight into retailers' practices in an attempt to understand their shrinkage calculations. In response to our questionnaire:

- 64% exclude markdowns
- 54% exclude damages
- 30% exclude known theft or losses
- 20% make no exclusions

Specialty stores are more likely to exclude damages (67%) than mass merchants (47%) or department stores (50%). Low-shrinkage stores (less than 1%) are twice as likely to exclude the known theft or loss as high-shrinkage stores (3% or more).

This year, we again have included a section examining shrinkage on a regional basis. It compares information geographically. However, the data we present are not intended to be indicative of overall nationwide shrinkage levels; not all participating retailers operate in every region, and not all multiregional participants provided regional statistics. Nevertheless, the data are useful to demonstrate trends.

Table 5
Shrinkage Levels By Region



In the Northeast, mass merchants report shrinkage levels of 1.6%, well below the 1.9% average for that region. Department and specialty stores in the Northeast averaged 2.1% for 1983. The West Coast reports an overall increase in shrinkage to 2.3% as compared to the 2.0% reported for 1982. This was especially true for the West Coast mass merchants who report 2.7% for 1983 versus 2.0% for 1982. West Coast department stores also exceeded the regional average with 3.0% for 1983 and 2.8% for 1982. Specialty stores report the lowest shrinkage of all West Coast retailers, with 1.9% for 1983 versus 2.0% for 1982.

To sharpen the information beyond regional breakouts, we asked retailers for their highest and lowest metropolitan areas for shrinkage. For the participants who responded, the following results list alphabetically the cities mentioned most frequently in each category:

High-Shrinkage Metro-Areas

Chicago
Detroit
Houston
Los Angeles/Long Beach
New York City

Low-Shrinkage Metro-Areas

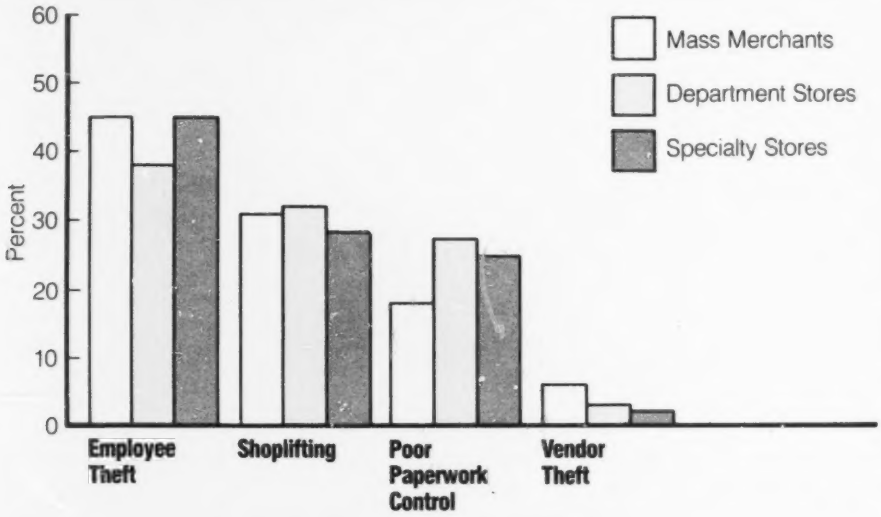
Kansas City
Minneapolis
Pittsburgh
St. Louis

Shrinkage Attributions

Since retailers have no way of accurately measuring the individual components of what causes most shrinkage, the following graph reports on the opinions and perceptions of the retailers in the survey population.

Graph B

Attributions of Aggregate Shrinkage by Store Type



The participating retail organizations attribute approximately 44% of this year's inventory shrinkage to employee theft, 30% to customer shoplifting, 22% to poor paperwork control, and 4% to vendor theft. Vendor theft is defined as theft by vendor representatives on the selling floor and at stock or distribution areas.

These figures show a decrease in the attribution of theft to employees from 50% reported last year, indicating the success that retailers may have had in spending their loss-prevention dollars in the right places. Part of this decrease could be due to the increasing use of loss-prevention education programs for employees. (This is discussed in greater detail further on in the section under "Methods to reduce shrinkage.") Although theft attributable to employees has dropped, 66% of all shrinkage still is attributed to internal factors.

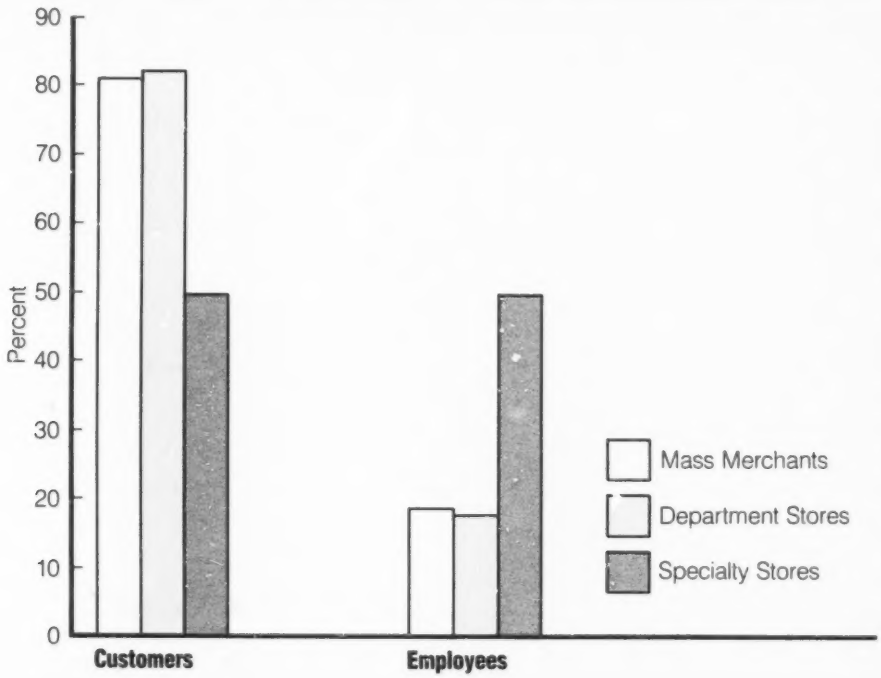
Mass merchants and specialty stores are more likely to attribute shrinkage to some type of employee theft (45%) than are department stores (38%). However, department stores attribute a greater percentage to paperwork (27%) than mass merchants (18%) or specialty stores (25%). There are no apparent differences in shrinkage attributions between companies with small and large sales volumes or between high-shrinkage and low-shrinkage chains.

Profile of the Apprehended Thief

Last year, our survey indicated that the "typical" apprehended shoplifter or employee thief was as likely to be a man as a woman. This year's results confirm those findings. Other results this year support our initial reports: On average, nearly three-quarters (72%) of all apprehensions were attributed to customers; the remaining 28% to employees. Mass merchants and department stores attribute a higher than average percentage (81% and 82%, respectively) to customer shoplifters; specialty stores report an equal amount (50%) of customer and employee apprehensions.

Graph C

Apprehensions of Customers and Employees by Type of Retail Segment



Overall, companies with less than 1% shrinkage attribute a smaller percentage (61%) to customer shoplifting than companies with at least 3% shrinkage (74%).

Who Are the Shoplifters?

There are five general categories of shoplifters:

Amateurs

- These are occasional thieves who steal on impulse, usually while purchasing other merchandise.
- Most will take advantage of what appears to be an easy opportunity (for instance, an unattended fitting room).
- Items taken are generally for personal use.

Professionals

- These professionals, or "boosters," steal for a living.
- They go into a store to see what legitimate customers are wearing and dress accordingly.
- They take no unnecessary chances, working in pairs or organized teams.
- They know what to steal because they know where to sell it.
- They seldom return to hit a store twice.

Narcotic Addicts

- They are unique in that they steal to support a drug habit.
- Many are dangerous because of their daily needs and when desperate, will steal openly, particularly at closing time.
- They'll fight to keep from being apprehended; the worst thing that can happen to an addict is to be confined.

Hard Cores

- Similar to addicts, they operate openly in a brazen manner.
- Most use fear to intimidate store personnel while they steal.
- They often work from "want lists."

Kleptomaniacs

- They have a psychological compulsion to steal, a deep-rooted problem.
- Often the items they take are of little intrinsic value.
- Experts believe there are few real kleptomaniacs.

Apprehension Trends

The number of apprehensions for 1983 decreased by 3% to 576,033 when compared to reports for 1982 by the same companies. However, the rate of prosecutions increased by 2% this year. Retailers evidently are apprehending fewer suspected shoplifters, but appear to be prosecuting them more aggressively. Convictions as a percent of apprehensions also increased this year by 2%. The chart on the following page provides a detailed breakdown of apprehension statistics from those companies providing a complete set of apprehension, prosecution, and conviction data.

Because mass merchants comprise the greatest proportion of companies in this year's survey population, they report the greatest number of apprehensions. These mass merchants are more likely to be large chains (30% have over $500 million in sales; 14% have over 500 stores). Mass merchants also have a higher prosecution rate (65%) and conviction rate (93%) than department and specialty stores. This is consistent with the statistics reported for 1982.

Table 6
Apprehensions, Prosecutions, and Convictions

	1983				*1982*
	Mass Merchants	Department Stores	Specialty Stores	All Participants	*All Participants*
Total Number of Apprehensions Reported	509,003	53,330	13,700	576,033	*595,632*
Prosecutions as a Percentage of Apprehensions	65%	55%	42%	63%	*61%*
Convictions as a Percentage of Prosecutions	93	86	90	93	*93*
Convictions as a Percentage of Apprehensions	61	47	38	59	*57*

Retailers report fewer false-arrest suits in this year's survey. Of the 576,033 apprehensions reported for 1983, only 13 of every 10,000 resulted in false-arrest suits. This compares to 14 of every 10,000 reported in last year's survey.

This trend indicates that retailers are selecting more carefully whom to apprehend and then successfully prosecuting these shoplifters through to conviction. The influx of advanced technology may be aiding the retailers in the apprehension and conviction process.

For clarity, the following sections discuss customer and employee apprehensions separately:

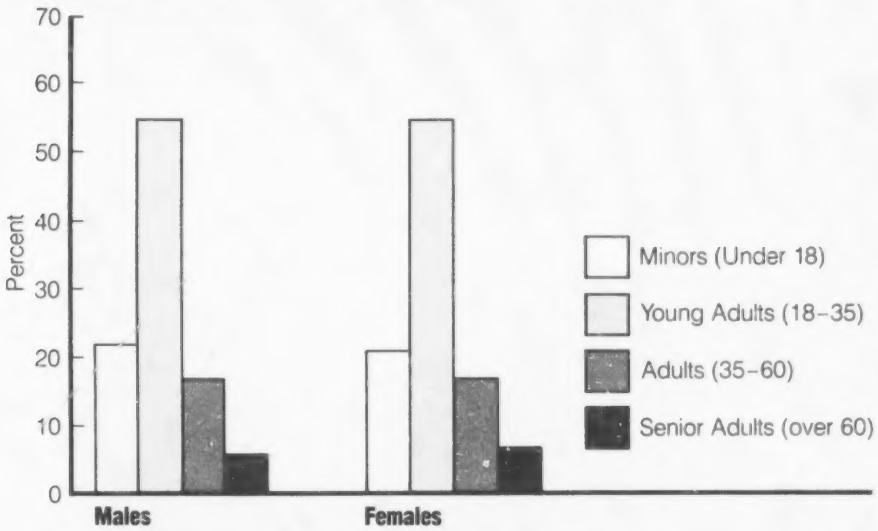
Customer Apprehensions

The results of this section support our findings from last year that, on average, there was virtually no difference in the percentage of apprehensions of male and female shoplifters. There were slight differences, however, by type of store. Mass merchants and specialty stores report that less than half of their apprehensions were of females, while department stores reported that almost 60% were.

For both male and female customers, across all store types, the highest percentage of apprehensions was attributed to young adults (ages 18 to 35). The remaining percentage was distributed between minors under 18 and adults over 35. This year we included an additional category, senior-adults—over 60 years old. Only 6% of the male and 7% of the female apprehensions were in this age group.

Graph D

Customer Apprehensions by Age Groups by Sex



The Teenage Shoplifter

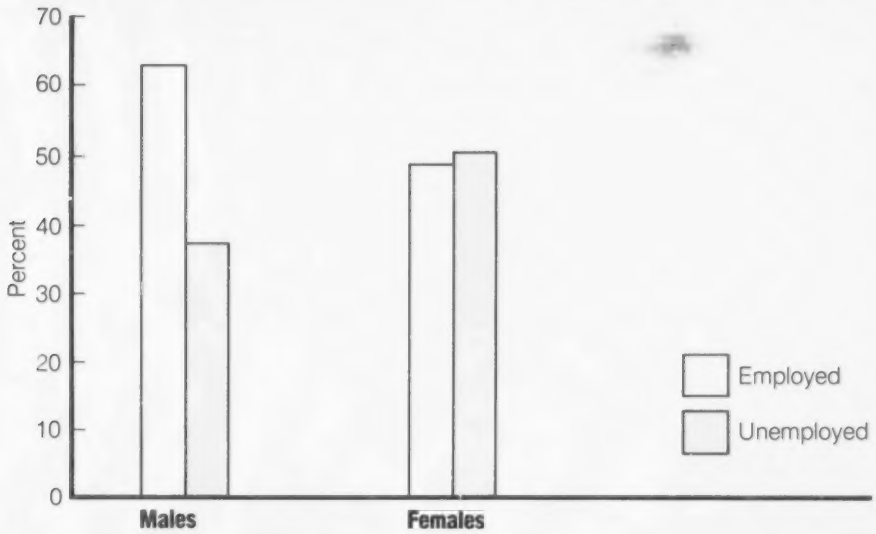
A security consultant suggests that fitting rooms are a major problem area because many times fitting-room checkers are not doing their job. According to the consultant: "They're not counting the merchandise in, or they're not counting it going out. Teenage shoplifters say that an ineffective fitting-room checker actually can cause shoplifting to occur. Some claim they had no intentions of shoplifting, but noticed that the checker was not counting the merchandise. This presents them with a special low-risk opportunity. They'll shoplift and never get caught. Many teenagers know which stores prosecute, which stores are easy marks, and how electronic tags work."

Respondents to this year's survey report that 63% of the apprehended males and 49% of apprehended females were believed to be employed.

The highest percentage of apprehended employed males was in mass-merchandise stores (66%); specialty stores report the second highest (63%). Specialty stores report the highest percentage of employed females apprehended (59%). Large companies with sales of more than $500 million report apprehending more unemployed males

Graph E

Customer Apprehensions—Employed vs. Unemployed for Males and Females



(46%) than do smaller companies with sales under $100 million (39%). The same trend holds true for females; large companies attribute 59% of their apprehensions to unemployed females, compared to 51% in smaller companies.

In our effort to ascertain the final disposition of shoplifted merchandise, we added a new question to the survey this year. The results are noteworthy: 75% of the respondents believe that the majority of the stolen merchandise was for *personal* use, and 25% believe that more than half of it was for resale. While these results cannot be used to generalize outside the survey population, it contradicts the popular belief that merchandise is stolen primarily for resale purposes. We would suggest that the professional thief is not as likely to be caught in the act of shoplifting as the amateur.

Another new question dealt with the timing involved in the shoplifter's decision to shoplift: Was the decision made before or after entering the store? Fifty-six percent of the respondents believe that most shoplifters plan to steal before entering the store, and 44% believe that most decide to shoplift after entering. This was true across all retail segments. However, high-shrinkage stores believe that shoplifters are more likely to decide to shoplift after entering. This suggests that the potential shoplifter will take advantage of any perceived opportunity.

Profile of a "Pro"

Chances are you've never even seen a real professional shoplifter, much less apprehended one, suggests one security expert. "They know all the tricks of the trade," he says. "They steal for a living. They're well dressed to avoid suspicion. They're cautious. They try to blend into the background. They work in pairs or organized groups, rarely alone. They even use hand signals."

According to the expert, the pros travel continuously from shopping center to shopping center. They don't like to work downtown because they have to park their cars or vans too far away. An appropriately dressed woman can wander through any department, including menswear, whereas a man stands out in a womenswear section. Pros don't do things that make them stand out.

They have an assured outlet to sell their merchandise. They know what they want before they go in.

The security man says: "These people specialize on the market needs. Some are stealing clothing of better quality to ship out of the country. They have an entire distribution system. For example, some pros specialize in stealing record albums."

Summing up, he says, the "professionals 'kill' painlessly. The store doesn't even know it's happened. They take the hangers and any other indication they were there."

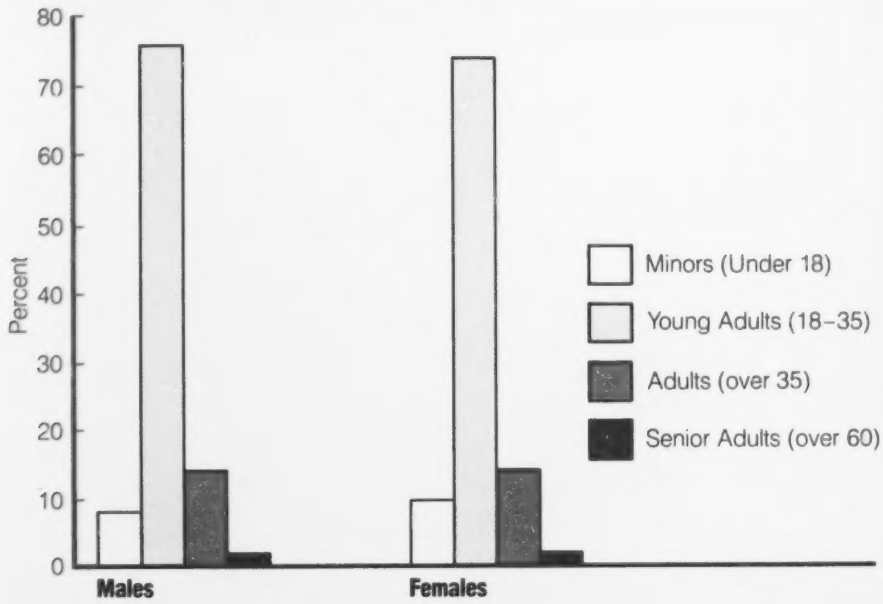
Employee Apprehensions

Apprehensions of female employees were slightly more prevalent (54%) than those of male employees (46%). Department stores show a lower percentage (40%) than average of male-employee apprehensions. These figures may reflect the composition of the work force.

In a trend similar to that reported for customers, retailers apprehended young-adult employees most frequently. There was an even greater percentage of apprehensions (76% males, 74% females) of young adults, with the second highest category attributed to adults rather than minors. Again, this probably reflects the fact that most store employees are adults.

Graph F

Employee Apprehensions by Age Groups by Sex



More than 70% of all reported employee apprehensions are attributed to cashiers (37%) and selling floor personnel (35%). Department stores have fewer cashier apprehensions (21%) than the overall average because they have fewer people who perform as cashiers only. However, for the same reason, they have a much higher percentage of selling-floor personnel apprehensions (59%).

Table 7

Categories of Employees Apprehended

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Cashiers	49%	21%	27%	37%
Selling Floor Personnel	22	59	40	35
Management	9	3	17	10
Distribution Center/ Store Backroom	13	11	15	13
Other	7	6	1	5

Loss-Prevention Expenditures and Methods

Loss-Prevention Expenditures

Expenditures for loss-prevention staff, equipment, and programs for fiscal 1983 increased sharply—up 18% from 1982. The $579 million represents 0.53% of sales, an increase over the 0.50% reported for 1982.

Mass merchants spent less than the overall average (0.43%), while department and specialty stores spent a greater percentage of sales on security (0.75% and 0.53%, respectively) than mass merchants.

Continuing last year's trend, companies with lower shrinkage levels spent a smaller proportion of their sales on loss-prevention costs: For companies with shrinkage levels of less than 1%, the expenditure was 0.42% of sales; those with shrinkage levels of at least 3% spent 0.71%.

Security expenditures represent a smaller percentage of sales in larger companies. Retailers with sales of $500 million or greater spent 0.38%, while companies with sales of less than $100 million spent 0.69%.

Table 8

Percentage of Participants by Percentage of Loss-Prevention Expenditures*

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Less than .1%	19%	3%	7%	12%
.1% to .24%	16	3	29	17
.25% to .49%	31	16	29	27
.5% to .99%	24	50	21	29
1% or More	10	28	14	15

*Percentage of Loss-Prevention Expenditures as Percentage of 1983 Sales Volume

Allocation of Loss-Prevention Expenditures

Approximately 30% of the security expenditures is being allocated to internal and external guards, and 27% is allocated to payroll expenses other than guards, which would include security management and administrative personnel. Electronic tags and other electronic equipment represent another 17% of the loss-prevention budget, and 5% goes to physical facilities.

On average, companies with shrinkage of 3% or more are spending a greater proportion of their security budget on guards (29%) and other payroll costs (35%) than the lower-shrinkage retailers (under 1% shrinkage). These companies are only spending 22% of their budgets on guards and 33% on payroll. Large companies (over $500

million) are spending 44% of their budgets on guards and 36% on payroll other than guards. Smaller retailers (under $100 million) are spending just 23% on guards and 29% on payroll other than guards.

Table 9
Allocation of Loss-Prevention Expenditures

	Mass Merchants		Department Stores		Specialty Stores		All Participants	
	1983	*1982*	1983	*1982*	1983	*1982*	1983	*1982*
Electronic Tags	4%	*3%*	14%	*13%*	16%	*13%*	10%	*9%*
Other Electronic Equipment	6	*4*	5	*5*	9	*7*	7	*5*
Physical Facilities	7	*7*	3	*4*	4	*4*	5	*6*
Internal Guards	29	*30*	31	*29*	9	*10*	23	*24*
External Guards	9	*10*	6	*7*	5	*7*	7	*8*
Payroll Other than Guards	24	*24*	29	*31*	29	*28*	27	*27*
Outside Services	9	*8*	4	*2*	6	*10*	7	*7*
Incentive Programs	1	*2*	2	*1*	3	*3*	2	*2*
Training	6	*6*	3	*4*	9	*9*	6	*6*
Other	5	*6*	3	*4*	10	*9*	6	*6*

Shrinkage Control Devices

According to the survey, mirrors are the most commonly used shrinkage-control device (79%), followed by limited-access areas (74%), lock-and-chain/cable devices (68%), and guards (68%). Despite their popularity, however, 66% of the respondents report mirrors as being the least effective method for controlling shrinkage. They tend to be popular because of their low cost. Electronic tags, used by 46% of the respondents, are judged to be the most effective device by 60% of those companies who utilize them.

The ranking of the devices listed below relates to the frequency of responses, with the first entry representing the response that had the greatest frequency.

Table 10
Shrinkage Control Devices

Devices by Frequency of Use	Devices Judged to Be *Most* Effective	Devices Judged to Be *Least* Effective
Mirrors	Electronic Tags	Mirrors
Limited-Access Areas	Guards	Visible TV Cameras
Lock-and-Chain Devices	Point-of-Sale Systems	Guards
Guards	Observation Booths	Observation Booths
Point-of-Sale Systems	Visible TV Cameras	Concealed TV Cameras
Observation Booths	Fitting-Room Attendants	Lock-and-Chain Devices
Electronic Tags	Limited-Access Areas	Fitting-Room Attendants
Visible TV Cameras	Lock-and-Chain Devices	Limited-Access Areas
Concealed TV Cameras	Concealed TV Cameras	Point-of-Sale Systems
Fitting-Room Attendants	Mirrors	Electronic Tags

Point-of-sale (POS) systems are being used in a loss-prevention program by 59% of the participants—a 9% increase over last year's reported use. Fifteen percent of those who use it judge it to be the most effective security device. Many retailers still have not fully integrated POS technology, such as price-lookup to control underringing, and key-entered codes to alert security personnel.

Table 11
Security Devices Used on the Selling Floor

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Mirrors	83%	86%	67%	79%
Limited-Access Areas	80	78	63	74
Observation Booths	60	69	18	49
Visible TV Cameras	49	53	24	42
Concealed TV Cameras	48	53	16	39
Electronic Tags	41	64	41	46
Point-of-Sale Systems	54	72	57	59
Guards	71	89	47	68
Lock-and-Chain Devices	60	94	61	68
Fitting-Room Attendants	43	64	12	38

Larger retailers (sales exceeding $500 million) tend to utilize security devices more frequently than smaller companies. For example, 70% of the large companies use concealed TV cameras, compared to 17% usage by small companies (sales less than $100 million). While 64% of the large companies use observation booths, only 42% of the smaller companies report their use.

Consistent with last year's findings, department stores report using virtually all of the security devices more often than other categories of retailers. For example, 64% of the department stores use electronic tags compared to 41% for both mass merchants and specialty stores. Lock-and-chain/cable devices, used by 94% of the department stores, were used only by 60% of the mass merchants and 61% of the specialty stores.

Table 12
Percentage of Participants Using a Security Device Who Believe It to Be the Most Effective

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Mirrors	1%	0%	3%	2%
Limited-Access Areas	8	0	25	10
Observation Booths	12	12	22	13
Visible TV Cameras	17	5	8	13
Concealed TV Cameras	8	11	0	8
Electronic Tags	59	57	67	60
Point-of-Sale Systems	13	12	21	15
Guards	22	16	8	17
Lock-and-Chain Devices	6	9	10	8
Fitting-Room Attendants	11	9	17	11

Table 13
Percentage of Participants Using a Security Device Who Believe It to Be the Least Effective

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Mirrors	67%	61%	68%	66%
Limited-Access Areas	6	4	0	4
Observation Booths	4	12	22	8
Visible TV Cameras	17	11	17	15
Concealed TV Cameras	10	0	13	8
Electronic Tags	3	4	0	3
Point-of-Sale Systems	4	0	3	3
Guards	3	13	25	10
Lock-and-Chain Devices	4	0	13	5
Fitting-Room Attendants	6	4	0	5

Cookie Monsters

High tech helped catch a supermarket employee with low fidelity.

Working in collusion with a vendor, the receiving clerk for one store of an East Coast chain was signing for many more cases of cookies than were actually being delivered. The phantom cases quickly added up to $15,000 before the company caught on.

"We caught them because we have a continuing program of double checking by sampling the receivings," says the assistant director of loss prevention. The chain has a supervisor and investigators for each of its ten districts. When the suspicion arose, the district supervisor checked the billings from that particular vendor.

"It was an abnormal quantity," says the loss-prevention spokesman. "We knew we weren't moving that many cookies. We're 100% scanning, and we can check scanning records on any item. Every item has a code number. I asked the computer how many of this code we had been selling. We found that for every ten cases we were buying, we were moving only two. We had a problem."

The loss-prevention people set up a pinhole video camera, just above the receiving door one night. They put the camera inside the emergency lightbox and focused the lens through a screwhole. They taped the vendor's next delivery.

"We brought in the receiving clerk and talked to him. Then, we showed him the videotape. We also showed him the computer printout of how many cases we received and how many we were selling. He broke down and gave us the story." Both men were successfully prosecuted, and the clerk is making full restitution.

The company now has set up controls requiring each store manager to check on one vendor every day. After an order is received, the manager double checks before the truck leaves.

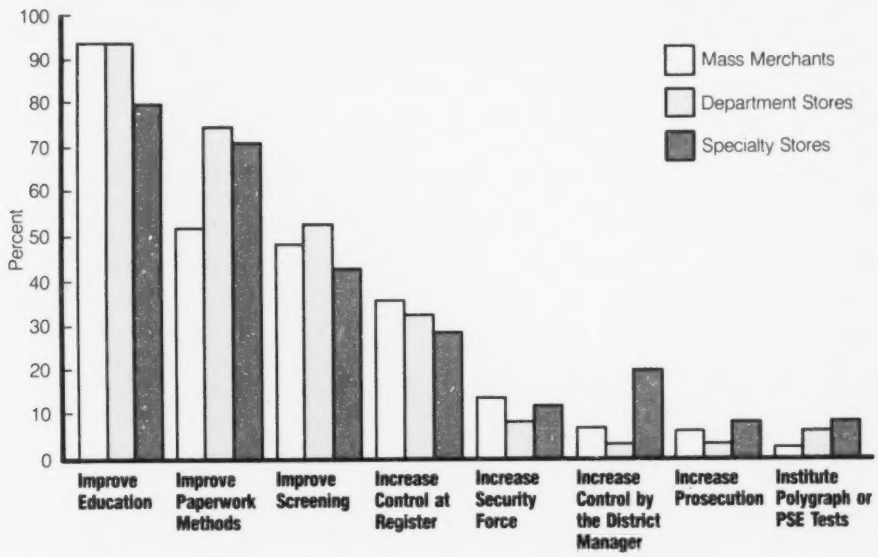
"In addition," says the chain spokesman, "our loss-prevention people go into a different store each day and spot check one vendor's delivery. That way, every few weeks, we eventually check on every vendor serving us. We're cutting those losses way down, but our biggest losses still usually go out the back door," he observes.

Methods to Reduce Shrinkage

Respondents again judge increased employee education to be the most effective method in reducing shrinkage (90%). More employee involvement, knowledge, and education in shrinkage control is a trend that appears throughout this year's survey. Sixty-three percent of the participants believe that improved paperwork control and accounting procedures would improve shrinkage results. However, 65% of the high-shrinkage companies feel that improved paperwork control and accounting methods would improve shrinkage results, while only 54% of the low-shrinkage companies concur. This, perhaps, can be attributed to the fact that low-shrinkage companies may have good control systems already in operation.

Graph G

Action Retailers Believe Would Do the Most to Reduce Shrinkage



Because specialty-store chains generally have a greater number of stores with small staffs spread over large areas, district managers have greater control over store operations. Thus, the seemingly disproportionate increase in control by district managers in the above graph.

Staffing, Screening, and Organization Practices

Security and Loss-Prevention Staffing

Department stores employ more full-time security and loss-prevention people than do either mass merchants or specialty stores. Thirty-one percent of the department stores had 100 or more people in security and loss prevention, compared to 29% of the mass merchants and none of the specialty stores. Ninety percent of the specialty stores report employing fewer than 20 security and loss-prevention people, while only 15% of the department stores employ fewer than 20.

Table 14
Percentage of Participants by Number of Full-Time Employees in the Security and Loss-Prevention Function

	Mass Merchants	Department Stores	Specialty Stores	All Participants
1 to 4	21%	3%	45%	24%
5 to 9	8	9	24	12
10 to 19	8	3	21	10
20 to 49	22	37	7	22
50 to 99	12	17	3	10
100 or More	29	31	0	22

Large companies employ more full-time security and loss-prevention personnel than small companies. In companies with sales of $500 million or more, 70% employ more than 100 security and loss-prevention people, while none of the companies under $100 million in sales does.

Screening Practices—Security Personnel

Among all participants, a background reference check (e.g., employment record, educational record, and personal references) is the most frequently used method of screening security and loss-prevention personnel (88%). This is followed by the use of a security or loss-prevention interview (81%). These in-depth interviews, which focus on the applicants' knowledge of specific loss-prevention techniques, are used by only 17% for nonsecurity personnel.

Table 15
Methods Used to Screen Security Personnel

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Background Check	91%	84%	86%	88%
Credit Check	38	38	43	39
Security/Loss Prevention Interview	85	78	74	81
Personality or Psychological Test	35	24	26	30
PSE Test	5	8	5	6

Qualifications—Security Personnel

Participants were asked to indicate the importance of significant retail experience, a college education, or a law-enforcement background for new security personnel. Of these, 53% judge significant retail experience to be most important. A college education was judged most important by 21% of the respondents. A law-enforcement background was considered to be very important by 21% of chains with shrinkage of at least 3%. Eleven percent of the companies with less than 1% shrinkage consider a law-enforcement background very important.

Table 16

Qualifications Considered to Be Very Important in Hiring Security Personnel

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Significant Retail Experience	48%	54%	62%	53%
College Education	20	9	32	21
Law Enforcement Background	4	9	28	12

Screening Practices—Nonsecurity Personnel

Background checks were the most popular method of screening nonsecurity personnel as well: 87% of the companies in the survey reported this practice. Personality/psychological tests (31%) and credit checks (21%) were other frequently used methods. Department stores used credit checks more frequently (28%) than either mass merchants (16%) or specialty stores (24%) when screening nonsecurity personnel.

Table 17

Methods Used to Screen Nonsecurity Personnel

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Background Check	88%	83%	88%	87%
Credit Check	16	28	24	21
Security/Loss Prevention Interview	22	6	16	17
Personality or Psychological Test	33	25	31	31
PSE Test	4	6	6	5

Use of Polygraph Tests

More than 60% of the responding companies indicate they use the polygraph test in some manner; most companies using the polygraph test administer it by exception when a theft occurs (90%), and more than 40% use it as a pre-employment condition. Smaller retailers use the polygraph test more frequently than large retailers as a pre-employment condition (53% and 38%, respectively).

Table 18
Use of the Polygraph Test

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Yes	66%	54%	63%	62%
No	34	46	37	38

More mass merchants administer the polygraph test (66%) than do either specialty stores (63%) or department stores (54%). Polygraph testing is more popular with larger companies whose sales exceed $500 million (73%), than with smaller companies with sales of less than $100 million (53%). Management philosophy (65%) and legal constraints (62%) were the reasons given most frequently by companies who refrain from its use.

Table 19
Reasons Why Companies Refrain from Using Polygraph Tests

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Legal Constraints	59%	88%	42%	62%
Management Philosophy	62	65	68	65
Tests Are Not Cost-Effective	7	24	16	14
Tests Do Not Work	7	6	16	9
Companies Have Better Alternative	7	6	11	8
Union Agreement	14	18	0	11

Personnel Policies: Training Programs

Loss-prevention training is an important factor in orienting both new security and non-security personnel. Eighty-eight percent of the companies report having some form of in-store training for new security personnel. Training manuals are popular with more than three-quarters of the companies.

Orientation programs are used nearly as frequently for nonsecurity personnel as they are for security personnel. In-store training is still the most commonly used method (84%), with films and/or videotapes the second most frequent method (64%). While loss-prevention training manuals were used by 80% of the companies for security personnel, only 57% of the respondents use them for nonsecurity personnel.

Table 20
Components of Personnel Training Programs

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Training for Security Personnel				
Training Manual	88%	72%	73%	80%
In-Store Training	88	89	88	88
Formal Classes	52	53	38	48
Films/Videotapes	69	75	53	66
Other	21	14	15	18
No Program	3	6	5	4
Training for Nonsecurity Personnel				
Training Manual	63	36	61	57
In-Store Training	87	75	84	84
Formal Classes	33	44	31	35
Films/Videotapes	66	75	55	64
Other	8	3	8	7
No Program	5	0	4	4

Overall, 96% of the companies have an ongoing program to train both security and nonsecurity personnel in the techniques of loss prevention.

Personnel Policies: Reward and Recognition Programs

Reward programs are based on the premise that the majority of employees can be motivated to help reduce shrinkage.

Monetary awards may be given to individual employees for several reasons, such as giving information to security personnel that leads to the apprehension of a shoplifter or of an employee, offering suggestions on loss prevention, and contributing to an overall improvement in departmental or total store shrinkage results. Some companies have instituted a system whereby all employees share in the benefits of improved store shrinkage results. Companies that do not provide monetary awards may either put a commendation in the employee's file or give the employee a certificate of merit. For example, a specialty-store chain rewards its employees with sales-commission credit for information leading to the apprehension of shoplifters.

Eighty percent of the participants report having either a reward or recognition system. Participants were asked how they reward employees for improved loss prevention. Fifty-one percent have some type of monetary reward, and 41% also may provide other forms of recognition for employees who help to reduce shrinkage; 20% report they have no programs at all.

Examining reward programs by category of retailer discloses that department stores (59%) were the most likely to pay employees for helping to reduce losses. Fifty-three percent of specialty stores and 46% of mass merchants have such programs. Overall, nonmonetary recognition is given to employees for assisting in the apprehension of shoplifters (48%) or in the control of shrinkage (41%).

Table 21
Reward Policies for Improved Loss Prevention

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Pay Nonsecurity Personnel for Apprehensions	24%	43%	31%	30%
Pay Security Personnel for Apprehensions	2	8	4	4
Pay All Employees for Shrinkage Reduction	10	5	12	10
Pay Employees Responsible for Departmental Shrinkage Reduction	10	3	6	7
Recognition of Personnel for Apprehensions	49	43	49	48
Recognition of Personnel for Shrinkage Control	45	41	33	41
Other Rewards	31	46	20	31
No Rewards	24	8	22	20

Organization Reporting

This year, the survey collected data about loss-prevention organizational structure. Twenty-six percent of the respondents indicate that the corporate head of loss prevention reports to the company president, 22% report to the chief operations officer, and 20% report to the chief financial officer.

In mass-merchandise stores the corporate security head is most likely to report to the president. In department and specialty stores, however, the corporate loss-prevention officer is more likely to report to a vice-president in such areas as administration or human resources.

At the store level, the store security manager most likely reports to the corporate security head (47%). This is true in mass-merchandise stores (40%), department stores (47%), and specialty stores (63%). In small stores (under $100 million in sales), the store security manager is more likely to report to the corporate security head (56%) than in large stores with sales over $500 million (19%).

Mass Merchants: Comparison of High- and Low-Shrinkage Companies

This section focuses on the differences between the policies and procedures of high-shrinkage and low-shrinkage mass-merchandising companies. For the purposes of this study, low-shrinkage mass merchants are defined as companies with less than 1.5% shrinkage; high-shrinkage companies are those with 2.5% or more. Of the 75 mass merchants reporting shrinkage statistics, 40% experienced low shrinkage, and 23% had high shrinkage. Mass merchants with shrinkage levels between 1.5% and 2.5% are considered to have neither high nor low shrinkage, and, therefore, have been eliminated from this comparative analysis.

The Participants

Low-shrinkage companies differ from high-shrinkage companies in both company size and security budget. Forty-seven percent of the companies with high shrinkage had sales of less than $100 million, and 59% had fewer than 50 store locations. This compares to 30% of low-shrinkage companies that report sales of less than $100 million; 41% of those chains have fewer than 50 store locations.

Companies less successful in controlling shrinkage actually allocated a higher percentage of their sales to loss prevention and security. Seventy-four percent of the low-shrinkage companies spent less than 0.5% of their sales on security, while only 67% of high-shrinkage companies could contain security budgets to that level.

Sixty-nine percent of those companies with high shrinkage and 67% of those with low shrinkage exclude markdowns when calculating shrinkage. Low-shrinkage companies are more likely to exclude damages (57%) in their calculation than were high-shrinkage companies (31%).

Personnel Practices

Popular methods for screening security personnel were: background checks (94%-high shrinkage; 93%-low), security interviews (81%-high; 90%-low), and credit checks (37%-high; 41%-low).

For nonsecurity personnel, low-shrinkage companies used all the methods more frequently than high-shrinkage mass merchants except the personality/psychological test (35%-high; 31%-low). Background checks were the most popular method used (77%-high; 93%-low).

Low-shrinkage companies are slightly more likely to use the polygraph test (70%) than are high-shrinkage companies (65%). If the polygraph is administered, nearly all of the companies say they use it in exceptional cases when a theft has occurred. Less than one-third of the companies (27%-high; 29%-low) use the polygraph test as a condition for employment.

High-shrinkage mass merchants (67%) that refrain from using the polygraph test are twice as likely as low-shrinkage companies (33%) to cite legal constraints. Low-shrinkage companies cite management philosophy (67%) for refraining from using the polygraph.

Low-shrinkage mass-merchandising companies are more likely to consider a college education very important for new security hires (25% vs. none of the high-shrinkage companies). More high-shrinkage companies (53%) consider retail experience to be very important than do low-shrinkage companies (39%).

Companies successful in controlling shrinkage use the orientation methods for new security employees more frequently than high-shrinkage companies. Popular methods were training manuals (97%-low; 71%-high) and films (69%-low; 43%-high). In-store training was popular with both groups (93%).

For nonsecurity personnel, low-shrinkage mass merchants again use all the screening methods more frequently than high-shrinkage stores. In-store training is the method used by most of the high- and low-shrinkage stores (87%-low; 82%-high), followed by the use of training manuals (70%-low; 53%-high).

The corporate security head most likely reports to the company president for low-shrinkage companies (37%). In high-shrinkage companies, the corporate security head most likely reports to the chief operations officer (33%), followed by the president (27%). In both high- and low-shrinkage mass-merchandising companies, the store-level security manager is most likely to report to the corporate security chief (35%-low; 47%-high).

Security Practices

On their selling floors, high-shrinkage and low-shrinkage mass-merchandising companies report they tend to emphasize different security practices. Companies that are more successful in controlling shrinkage are more likely to use all of the security devices except concealed TV cameras. The most popular methods of shrinkage control are: mirrors (90%-low; 82%-high) and limited-access areas (90%-low; 71%-high). Electronic tags are more likely to be used by low-shrinkage companies (47%) than high-shrinkage chains (30%).

Both high- and low-shrinkage mass merchants attribute the greatest percentage of their shrinkage to employee theft (45%-low; 42%-high). They attribute the next most likely cause of shrinkage to customer shoplifting (29%-low; 31%-high).

Prosecution Trends

Responding mass merchants with low shrinkage are prosecuting a higher percentage of those they apprehend (68%) than high-shrinkage companies (56%), and they are convicting 66% of those they apprehend in comparison to high-shrinkage companies' 28%. Almost all (97%) of those the low-shrinkage companies prosecute are convicted, as against a 50% conviction rate for high-shrinkage companies.

Profile of Low-Shrinkage Mass Merchants

The following profile presents a summary of the characteristics and loss-prevention policies of the mass-merchandising companies that report shrinkage results under 1.5%.

General Characteristics

- These companies are often moderate in size: 30% report sales of less than $100 million, and 41% have fewer than 50 stores.
- Almost all have some of their stores in suburban locations (96%). Over half operate at least 75% in suburban areas.
- Seventy-four percent spend less than 0.5% of total sales revenues on their security function.

Personnel Practices

- All new security employees receive some form of special training through the use of a training manual (97%), in-store training (93%), films (69%), and formal classes (55%).
- Companies screen new security personnel through a background check (93%), security or loss-prevention interview (90%), credit check (41%), and personality/psychological test (31%). Background checks also are performed on nonsecurity personnel (93%).
- Some 70% of the companies use polygraph testing. Of those that use it, 95% administer it by exception (when a theft occurs).
- Employees are rewarded for their role in improving shrinkage (72%): through monetary payment (52%) or in other forms of recognition for their help in apprehension of offenders (55%), and/or for controlling departmental shrinkage (41%).

Control Policies

- Of those apprehended, 68% were prosecuted, and 97% of the prosecutions resulted in convictions.
- Security devices most likely to be used in the selling area are: mirrors (90%), limited-access areas (90%), and lock-and-chain/cable devices (80%). Forty-three percent of the reporting companies named electronic tags as the most effective device in shrinkage control.

Attitudes Regarding Shrinkage

- Mass-merchants are likely to blame the greatest portion of their shrinkage on employee theft; 45% attributed their shrinkage to this problem.
- These retailers believe that the most effective actions they can take to reduce shrinkage are: improving employee education (93%), improving employee screening (57%), improving paperwork and accounting methods (53%), and improving cash-register control (23%).

Table 22

Mass Merchants:
Percentage of Participants by 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Under $100 Million	12%	30%	36%	42%
$100 to $499 Million	38	46	27	33
$500 Million to $1 Billion	25	12	14	8
Over $1 Billion	25	12	23	17

Table 23

Mass Merchants:
Percentage of Participants by Loss-Prevention Expenditure as a Percentage of 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Less than .1%	17%	17%	10%	30%
.1% to .24%	17	13	19	10
.25% to .49%	66	37	24	30
.5% to .99%	0	23	38	10
1% or More	0	10	9	20

Table 24

Mass Merchants:
Components of Personnel Training Programs by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Training for Security Personnel				
Training Manual	100%	97%	86%	60%
In-Store Training	88	97	91	90
Formal Classes	38	60	67	30
Films	63	80	62	50
Other	25	20	14	30
No Program	0	0	5	10
Training for Nonsecurity Personnel				
Training Manual	63	67	68	50
In-Store Training	88	88	86	83
Formal Classes	50	39	32	8
Films	88	70	64	33
Other	13	12	5	8
No Program	0	3	0	17

Table 25

Mass Merchants:
Security Devices Used on the Selling Floor
by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Mirrors	88%	85%	86%	75%
Limited-Access Areas	100	82	62	75
Observation Booths	63	70	67	33
Visible TV Cameras	63	45	52	58
Concealed TV Cameras	50	36	57	50
Electronic Tags	75	36	38	33
Point-of-Sale Systems	100	58	57	33
Guards	63	76	76	58
Lock-and-Chain Devices	88	64	48	42
Fitting-Room Attendants	25	58	52	8

Across the Board

One Mass Merchant's War Stories

A national mass-merchandising company is using everything from electronic stickers to surveillance cameras to a reward system to cut theft. The biggest reward has gone to the company. Says the vice president of loss prevention, "In just three years we have cut our shortages from a 4.5% rate to less than 1.5%."

• The company put electronic stickers on its hard goods. The sticker is held on by a strong adhesive that is not removed. Instead, the cashier uses a wand to deactivate the sticker at the checkout desk. The sticker is placed next to the price tag, so the customer thinks the cashier is using the wand to record the price.

The company has been using it for more than a year, and "it has brought us a tremendous improvement in cutting shoplifting."

• Another tool for cutting employee theft has been the surveillance cameras. "Using a video system, we broke a case in one store where two cashiers were stealing about $100,000 by creating fictitious refunds," the vice president recalls. Through the cameras, they monitored the suspects' activities over a period of time and identified specific instances where they were making fraudulent refunds. "And," notes the loss-prevention executive, "there weren't even any customers present."

The company put together "a very good case and got a confession during our interrogation. We prosecuted both culprits."

As a deterrent, the company informs its employees that they have cameras. "I prefer not to use covert cameras except in special cases," he says. "I even make sure every employee sees them. It's a strong psychological deterrent. And once you show them what these cameras can do, it's amazing what happens."

When he was with a major department store organization, he put in a 42-camera system in one New Jersey store where they had "a horrendous problem." He had to be "very diplomatic" because there was the threat of a union coming in. "Before we installed them," he says, "I told everyone that cameras don't watch people. They watch merchandise. Before we ran the first wire, our terminal differences dropped by 40%, just from announcing we were going to put them in." Within a brief period, shortages had dropped from 4.2% to 1.3%.

The vice president points out that you can't just put cameras in and expect them to solve your problems. "You have to use them with great sophistication. You need trained people to monitor them. They have to understand the difference between observing a customer who is looking through merchandise and one who is looking to take it."

• He is as concerned about multiple pricing and wrong SKUs as he is about theft. "They contribute heavily to shortages. Our field auditors check on this all the time. We have a very active Shortage Committee in every store and a very active Task Force Committee. I convinced management that this is an extremely important part of loss prevention."

• The company makes a determined effort to catch internal thieves. "We catch a lot of them—600 last year. In some companies," he notes, "they put the main effort into catching shoplifters, and maybe they'll stumble over a crooked employee. My attitude is the reverse: Concentrate on the employees, and you'll catch the shoplifters anyway."

• One of the ways he suggests to cut employee theft is to run an awareness program. "Tell them what you are going to do and what can result from

it," he says. "Show how employees can hurt themselves by stealing. Show them how important honesty is to their own job security and to a good reference if they change their jobs."

• Further, the mass merchant has been encouraging employees to work with the company on the problem by setting up a reward program. "We use a service with a 24-hour-a-day phone hotline available for tips. The outside company is neutral. They take the call on their nationwide WATS line."

They ask what the person saw, when it happened, where, whether it was a one-time event or it appeared to be an ongoing problem. They do not ask for the caller's name, but assign the person a code number and advise the tipster to call back in 30 days. If the culprit has been apprehended and prosecuted or made to pay a restitution, the caller receives a reward.

Says the vice president, "Most people call late at night. They take their troubles to bed with them. It's amazing how they call in a lead to get it off their chests."

In one case, an employee called the service to say he suspected a night guard in one of the stores was letting people in after hours. They apprehended him with about $5,000 worth of merchandise.

In another, the cleaning crew was stuffing merchandise in their cleaning buckets and vacuum cleaners. They had cleaned up about $80,000 worth.

Still, the biggest catch was a collusion between inside people and a credit-card counterfeiting ring. The scheme had netted over $1 million.

"Federal agents were working on this when we found some of our merchandise was being sold out on the streets," explains the loss-prevention executive. "We initially thought it was theft, but our field auditors found that our controls were in place. We then started to screen our customer pick-up areas and the sales checks. We found the names of the people picking up the merchandise were different from those who had charged them. By analyzing the charges, we found a high frequency of the same names for large appliances. And we found the same salespersons were involved frequently."

They checked with VISA International who advised them that they had been looking for this kind of break on an international counterfeiting operation. "VISA worked with us to identify 22 suspects, whom we monitored through our video system," he says. "We got their license numbers, followed them, found where they were dropping off the merchandise. Then, as a result of an authorized line tap, they identified the factory where the credit cards were being produced. They arrested 23 people, two of whom were ours."

What has been the result of all of this activity over just the past few years? "In 1982, before the systems were installed, the shortages we were investigating amounted to more than $230,000. In 1983, the first year, these shortages had dropped to a little over $86,000. This year, the company projects losses to hit around $70,000.

"Last year, we came in 46% under projection. We only can hit the target stores, about 25% overall. However, where we used to have stores with 8% shortages, our worst ones now are only 4%."

Department Stores: Comparison of High- and Low-Shrinkage Companies

This section focuses on the differences between the policies and procedures of high-shrinkage and low-shrinkage department stores. For the purposes of this study, low-shrinkage companies are defined as those with shrinkage of less than 1.9% of sales; high-shrinkage companies are those with shrinkage of 2.3% or more.

Of the 35 department stores reporting shrinkage statistics, 31% are in the low-shrinkage category, and 40% are high-shrinkage companies. Department stores with shrinkage levels between 1.9% and 2.3% do not fall in either category and, therefore, have been eliminated from this analysis.

The Participants

The majority of the participants reported sales of less than $500 million (91% of low-shrinkage companies and 71% of high-shrinkage companies); 64% of the low-shrinkage and 93% of the high-shrinkage companies had fewer than 50 stores.

Low-shrinkage companies (73%), are more likely to exclude markdowns in their shrinkage calculation than high-shrinkage companies (64%). High-shrink companies, however, exclude damages (57%) more frequently than low-shrink companies (46%). Eighteen percent of the low-shrink companies make no exclusion, as compared to 7% of the high-shrinkage companies.

Twenty-two percent of the low-shrinkage department stores spent less than 0.5% of their sales on security in 1983 compared to 7% of the high-shrinkage companies. Thirty-six percent of high-shrinkage companies are spending more than 1% of sales on their security budgets, while only 11% of the low-shrink companies report expenditures at that level.

Personnel Practices

High-shrinkage chains generally make more extensive use of screening practices for security and nonsecurity personnel. Background checks were the most popular method for both groups. For security personnel, all of the reporting high-shrink companies use background checks compared to 64% of the low-shrink companies. There was very little difference in the use of background checks for nonsecurity personnel in high-shrinkage (86%) and low-shrinkage (82%) companies. As expected, more companies used the security interview for hiring security personnel (64%-low; 93%-high) than for nonsecurity personnel (9%-low; 7%-high).

Both high- and low-shrinkage companies use the polygraph test with about the same frequency (55%-low; 57%-high). Those administering the test use it primarily as an exception, as when a theft occurs (67%-low; 75%-high). About half of both categories use the polygraph as a condition for employment.

All the low-shrinkage department stores that refrain from using the test cite legal constraints as their prime reason. All the high-shrinkage stores that refrain say it is a matter of management philosophy.

Seventy percent of the low-shrinkage department stores consider significant retail experience to be very important for new security employees. Fewer (57%) high-shrinkage companies regard this as very important. Twenty percent of the low-shrinkage companies consider a college education to be important, compared to none of the high-shrinkage companies.

The trends in training for both security and nonsecurity personnel are similar: high-shrinkage companies provide more comprehensive training; in-store training and films are the most popular methods. Ninety-three percent of the participating high-shrinkage department stores provide in-store training for new security personnel, as do 82% of the low-shrinkage companies. Both categories use in-store training for non-security employees with virtually the same frequency (80%-low; 79%-high).

In companies with high shrinkage, the store-level security manager is most likely to report to the store manager (62%). Thirty-eight percent report to the corporate loss-prevention head. The reporting relationships in low-shrinkage companies are slightly different; 46% of the store security managers report to the corporate security head, and only 36% report to the store manager.

Security Practices

High-shrinkage department stores are more likely to use virtually all of the security devices or measures than low-shrinkage companies. Popular methods reported are: lock-and-chain/cable devices (91%-low; 100%-high), observation booths (36%-low; 100%-high), and electronic tags (36%-low; 93%-high).

Low-shrinkage companies favor point-of-sale technology (82%-low; 71%-high) and mirrors (91%-low; 86%-high). Both categories judge electronic tags to be the most effective device, and mirrors the least effective.

Prosecution Trends

High-shrinkage companies prosecute a smaller percentage of those they apprehend (43%) than low-shrinkage companies (84%), but their rate of convictions-to-prosecutions is higher (98%-high; 58%-low). Companies more successful in controlling shrinkage convict 49% of those they apprehend compared to 43% in less successful companies.

Profile of Low-Shrinkage Department Stores

The following profile presents a summary of the characteristics and loss-prevention policies of the participating department stores with shrinkage of less than 1.9% of sales.

General Characteristics

- Ninety-one percent of these retailers report sales of less than $500 million, and 64% had fewer than 50 stores.
- Most (70%) have more than three-quarters of their stores in suburban locations.
- Eighty-nine percent spend less than 1% of total sales revenues on their security operations.

Personnel Practices

- Screening practices for new security and nonsecurity employees most frequently include background checks (64% and 82%, respectively) and credit checks (18% and 27%, respectively). In addition, a security or loss-prevention interview (64%) is a popular technique for screening new security personnel.
- Most (82%) of the low-shrinkage department stores report that they train their security and nonsecurity personnel in security and loss-prevention techniques.
- Popular training techniques for security personnel include in-store training (82%), training manuals (73%), and films (64%).
- Reward programs for employees include recognition for controlling shrinkage (46%) or assistance leading to the apprehension of shoplifters (36%). Monetary rewards also are popular (46%). Eighteen percent of the reporting companies offer no rewards.
- Polygraph tests are used (55%), but usually on an exceptional basis when a theft occurs (67%). They also are used in pre-employment testing (50%).

Control Policies

- Low-shrinkage department stores prosecute 84% of the apprehended shoplifters. More than half (58%) of these resulted in convictions.
- Security systems most likely to be used in the selling area are lock-and-chain/cable devices (91%), mirrors (91%), and limited-access areas (82%).

Attitudes Regarding Shrinkage

- Low-shrinkage department stores believe that the three most effective actions they can take to reduce shrinkage are: improving employee education (91%), improving paperwork and accounting methods (82%), and improving employee screening (64%).

Table 26

Department Stores:
Percentage of Participants by 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Under $100 Million	0%	40%	39%	25%
$100 to $499 Million	67	60	34	75
$500 Million or More	33	0	27	0

Table 27

Department Stores:
Percentage of Participants by Loss-Prevention Expenditure as a Percentage of 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Less than .1%	50%	0%	0%	0%
.1% to .24%	0	11	0	0
.25% to .49%	0	11	25	0
.5% to .99%	50	56	50	25
1% or More	0	22	25	75

Table 28

Department Stores:
Components of Personnel Training Programs by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Training for Security Personnel				
Training Manual	33%	80%	88%	25%
In-Store Training	67	90	94	75
Formal Classes	0	50	71	25
Films	33	70	82	100
Other	33	10	6	50
No Program	33	10	0	0
Training for Nonsecurity Personnel				
Training Manual	0	33	44	0
In-Store Training	100	67	72	75
Formal Classes	0	33	61	25
Films	67	67	83	100
Other	33	0	0	0
No Program	0	0	0	0

Table 29

Department Stores:
Security Devices Used on the Selling Floor
by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Mirrors	100%	90%	82%	100%
Limited-Access Areas	67	90	71	100
Observation Booths	33	50	88	100
Visible TV Cameras	67	50	59	25
Concealed TV Cameras	33	50	53	75
Electronic Tags	33	40	77	100
Point-of-Sale Systems	67	80	82	50
Guards	100	80	94	75
Lock-and-Chain Devices	100	90	94	100
Fitting-Room Attendants	33	60	65	100
Other	0	20	12	25

Thieves' Center

The scene: A distribution center for a chain in the Southwest.

The cast: About 35 of some 45 employees. The leader is the warehouse supervisor.

Time: Usually night, but sometimes early morning or late evening.

Action: Supervisor, who has all of the door keys and alarm control, leads a group of six or seven others. He has them hide merchandise in empty packing cases and trash bags. They carry them out with broken pallets to a truck waiting to carry this trash to a dump. The truck driver, working in collusion with the gang, drops off the merchandise to various gang members' houses on his way to the trash dump.

Action: Supervisor comes in early in the morning before the distribution center opens. He turns off the alarm, unlocks the doors, takes what he wants, and loads it into his own pickup truck parked at the loading dock. He then resets the alarm, locks up, drives home where he unloads his "take," and returns to the center to open up for the day.

Action: An employee, with a duplicate set of keys supplied by the supervisor, works with a number of others during evenings when the shift is operated by a skeleton crew. The night crew is either too busy to notice what is going on or winks at the activities. The gang opens the locked doors, takes what it wants from the shelves, and carries the merchandise outside to their vehicles. They relock the doors and set the alarm.

Action: Some not involved with either gang, steal on their own.

Toll: About $250,000 worth of merchandise stolen in approximately six months.

Explains the loss-prevention director: "We got onto the problem when transfers to our 11 stores were turning up short. So I called in an outside security operation to look into it."

The security specialist noticed employees were entering and leaving the center through the loading-dock doors instead of the employee entrance. There were no package checks. Employees were permitted to buy damaged merchandise. At night, employees' vehicles were parked close to the loading docks. Employees were carrying out the trash with no one checking it.

Acting on these concerns, the loss-prevention director interrogated and polygraphed the employees one at a time. "We started getting confessions, which enabled us to round up about three-fourths of our entire personnel there," he says. "Our supervisors were supposed to see that these things didn't happen. Unfortunately," he laments, "they were part of the problem, not part of the solution."

While the company fired all of those involved, it was only able to file charges against a few of the men who had sold the merchandise locally. The rest had traded the stolen goods in Mexico in exchange for drugs. "We weren't able to get any of the merchandise back, and we couldn't prosecute without evidence to go along with the confessions," he says.

Since then, the company has done away with the night shift and is running two day shifts, from 7 a.m. to 6 p.m. It has cut down on the number of supervisors who have keys. Everyone has to go through a checkpoint before entering or leaving the premises. The doors are controlled electronically from inside the office. And employees must eat their lunches at the center instead of being able to go out at any time during their shift.

In addition, notes the loss-prevention director, "We have segregated the area with a security fence. Only our delivery trucks may enter. Employees may no longer park their vehicles within the compound. We have virtually sealed off the entire distribution center. And we've changed our accounting system to give us better information. It's been a vast improvement."

Specialty Stores: Comparison of High- and Low-Shrinkage Companies

In this section, we consider the differences between the policies and procedures of high- and low-shrinkage specialty stores. For purposes of this study, low-shrinkage stores are defined as those with shrinkage of less than 1.4% of sales; high-shrinkage companies have shrinkage of 1.9% or more. Statistics represent the combination of low- and high-shrinkage categories reported in the tables at the end of this section.

Of the 47 specialty-store companies reporting shrinkage statistics, 38% are classified as having high shrinkage; 34% have low. Specialty stores with shrinkage between 1.4% and 1.9% are not considered to have high or low shrinkage and have been eliminated from this analysis.

The Participants

High-shrinkage specialty stores tend to be smaller than low-shrinkage companies. Sixty-nine percent of the high-shrinkage companies report sales of less than $100 million; 44% had fewer than 50 stores. Sixty-one percent of the low-shrinkage companies have sales of less than $100 million, and 39% have fewer than 50 store locations.

Eighty-one percent of the low-shrinkage specialty stores spent less than 0.5% of their sales on security in 1983 compared to 50% of the high-shrinkage companies.

Paradoxically, participating high-shrinkage companies are more likely to exclude markdowns from their shrinkage calculation (69%) than low-shrinkage companies (56%). However, 31% of the high-shrinkage companies do not make any exclusions, compared to the 17% cited by low shrinkage companies.

Personnel Practices

High-shrinkage specialty-store companies are more likely to use the background check, credit check, and security interview than low-shrinkage companies in hiring security personnel. The background check was the most popular (93%-high; 86%-low). The next most popular is the security interview (79%-high; 71%-low).

For nonsecurity personnel, the reference check was the most frequently used method, with nearly the same usage in high- (88%) and low- (83%) shrinkage companies. Credit checks are more likely to be used by high-shrinkage companies (31%) than low-shrinkage companies (22%).

Polygraph testing is more likely to be used by high-shrinkage companies (75%) than low-shrinkage companies (61%). It is, however, most likely to be used in an exceptional case, when a theft occurs (92%-high; 73%-low).

For companies refraining from using the polygraph, 75% of high-shrinkage companies (43%-low) cite legal constraints as the reason they refrain; 71% of low-shrinkage companies cite management philosophy (25%-high) as their strongest objection.

Both high- and low-shrinkage specialty stores consider significant retail experience to be most important for new security employees (67%-low; 57%-high). A college education is considered the most important attribute by more high-shrinkage companies, whereas low-shrinkage companies consider prior retail experience to be very important.

Overall, in-store training and training manuals were the most popular training methods. Seventy-seven percent of the high-shrinkage and 64% of the low-shrinkage companies use training manuals for security personnel. In-store training rated high for nonsecurity personnel (78%-low; 88%-high). High-shrinkage companies (75%) were more likely to make use of training manuals for nonsecurity personnel than low-shrinkage companies (44%).

The corporate head of security is most likely to report to the president or chief operating officer (29%) in low-shrinkage companies. High-shrinkage companies indicate no dominant reporting relationship. Most store-level security managers report to the corporate head of security (58%-low; 73%-high).

Security Practices

High-shrinkage specialty stores are more likely to use all of the security devices and measures than low-shrinkage specialty stores. The most popular methods are: lock-and-chain/cable devices (50%-low; 75%-high); mirrors (67%-low; 81%-high) and point-of-sale technology (44%-low; 75%-high).

Prosecution Trends

Specialty stores have had success prosecuting those they apprehend. The conviction rate of those prosecuted is 89% for low-shrinkage stores and 90% for high-shrinkage companies. However, low-shrinkage companies (47%) are prosecuting a higher percentage of those they apprehend than high-shrinkage companies (32%).

Profile of Low-Shrinkage Specialty Stores

The following profile presents a summary of the characteristics and loss-prevention policies of the participating specialty stores that reported shrinkage of less than 1.4% of sales.

General Characteristics

- Sixty-one percent of the low-shrinkage specialty-store companies report sales of less than $100 million, and 39% had fewer than 50 stores.
- Sixty-nine percent have at least 50% of their stores in suburban locations.
- These companies tend to spend less than 0.5% of their total sales revenue on the security function (81%). All had fewer than 50 employees on their security staffs.

Personnel Practices

- In-store training is the most popular training technique for both security (79%) and nonsecurity (78%) personnel. The training manual is the second most popular technique for both groups.
- Most (67%) consider retail experience very important for new security employees.
- The polygraph test was used by more than half (61%) of the companies. It is most frequently administered in exceptional cases (73%). Management philosophy (71%) was the most common reason given for not using the test.
- Seventy-six percent reward employees for their roles in controlling shrinkage, frequently through recognition for assistance leading to apprehension of shoplifters (47%) or controlling departmental shrinkage (24%). Twenty-four percent of the low-shrinkage specialty stores offer no reward program.
- The store-level security manager likely reports to the corporate loss prevention head (58%).

Control Policies

- Security methods most likely to be used in the selling area are: mirrors (67%), limited-access areas (61%), and lock-and-chain/cable devices (50%).
- Sixty-seven percent nominated electronic tags as being the most effective shrinkage-control device.

Attitudes Regarding Shrinkage

- These retailers believe that the most effective actions they can take to reduce shrinkage are: improving their methods of employee education (72%), paperwork and accounting controls (67%), and employee screening and control at the cash register (39%).

Table 30

Specialty Stores:
Percentage of Participants by 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Under $100 Million	82%	45%	67%	75%
$100 to $499 Million	9	50	33	25
$500 Million to $1 Billion	9	5	0	0

Table 31

Specialty Stores:
Percentage of Participants by Loss-Prevention Expenditure as a Percentage of 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Less than .1%	22%	6%	0%	0%
.1% to .24%	22	18	37	33
.25% to .49%	45	35	18	0
.5% to .99%	0	29	18	67
1% or More	11	12	27	0

Table 32

Specialty Stores:
Components of Personnel Training Programs by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Training for Security Personnel				
Training Manual	44%	94%	70%	100%
In-Store Training	78	94	80	100
Formal Classes	22	50	30	33
Films	44	50	60	67
Other	22	13	20	0
No Program	11	0	10	0
Training for Nonsecurity Personnel				
Training Manual	36	65	67	100
In-Store Training	73	95	83	100
Formal Classes	18	45	33	25
Films	36	60	67	50
Other	9	15	0	0
No Program	9	0	0	0

Table 33

Specialty Stores:
Security Devices Used on the Selling Floor
by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Mirrors	46%	65%	75%	100%
Limited-Access Areas	46	70	58	75
Observation Booths	9	20	17	25
Visible TV Cameras	18	15	50	25
Concealed TV Cameras	0	20	33	0
Electronic Tags	36	45	50	50
Point-of-Sale Systems	46	60	75	75
Guards	46	45	42	75
Lock-and-Chain Devices	27	65	67	100
Fitting-Room Attendants	0	15	17	25
Other	9	25	33	25

Eye In The Sky

With a long lens the size of a cigar, a pinhole camera in the ceiling has helped a specialty-store company to cut employee crime and improve productivity.

The video cameras shoot through a small hole and the action is recorded on tape. By slowing down the normal two-hour tape, each camera can run for a complete 12-hour day without reloading or monitoring. The cameras focus on the cash desk and wrap areas as well as part of the customer area. The company has two complete units, which it moves as needed, to its 700 locations around the country.

"The lens, which no one can see, gives us a sharp image," says the director of security. "Our employees know that we use these units, but they don't know when they're in place. While they're aware when one of our security teams comes in for an audit, they don't know when we make a covert visit for this kind of surveillance. It's an effective psychological tool," he says.

He attributes "some phenomenal successes" to the camera. "In one case, we had a 'squeal' that a manager was stealing merchandise. We went in one night, set up the camera, and the next day taped her taking both merchandise and cash. When we showed her the tape, she admitted to stealing about $500 worth over a period of time. On top of that, the camera also caught two employees loading up about $3,000 worth of merchandise in five sacks. They handed the bags across the counter to four women. We arrested the employees, their two mothers, and their two sisters. We are still getting restitution from them two years later."

He got another lead, recently, about some irregularities in one of their southern stores. "We put the camera in really to watch the cash desk," he says. "But the camera caught a sales girl giving merchandise to a friend. She readily admitted she was doing it, and said that everyone else in the store was stealing. We ended up with five confessions."

At times, the camera isn't fast enough actually to verify that an employee is stealing cash. "Some women are so quick with their hands, you can't see them take the money," he explains. "However, you do see them going to their purses. So, you try to convince them you know more than you do. In one case, we saw a woman give a customer an adding-machine tape instead of the register tape as a receipt. Then she pocketed the money instead of ringing it up."

In the five years the chain has been using the cameras, it not only has recorded crime but recorded wasted time. "Our cameras have picked up sales people taking unauthorized coffee breaks and talking on the phone. We've shown these tapes to store managers to demonstrate why the floors weren't being covered properly. It certainly has helped productivity."

The security director also insists that companies have to screen personnel more thoroughly. He feels the cost of the additional trained people required is worth it. "It takes expertise to know how to delve into prospective employees' backgrounds," he says. "We had a situation where a porter in one of our stores walked off with our deposits of $2,500. No one had checked his records because no one thought it was important to investigate the references of a porter. All he does is sweep up.

"When I looked at his application afterwards, I saw his previous job had been as manager of an after-hours joint. Prior to that, he had a four-year gap in his record. That probably means he was in jail. Nobody bothered to ask, even though he has merchandise and money at his disposal, access to the back door, and knows where to sell stolen goods."

Appendix I: Food Retailers

The Participants

Twenty-nine food retailers, operating at more than 6,000 locations, participated in this year's study. Their aggregate 1983 sales volume was in excess of $27 billion.

Thirty percent of the participating food retailers report 1983 sales volume of $500 million or more. Forty-one percent of the respondents had more than 100 stores, and 7% had more than 1,000.

Shrinkage Results

Participants report aggregate inventory shrinkage to be 1.3% of sales for 1983, the same as in 1982. This is in contrast to nonfood retailers who report a decrease in shrinkage rates from 1982 to 1983. More than half of the respondents (52%) exclude markdowns when calculating shrinkage; 44% make no exclusions.

Shrinkage Attributions

It should be noted that, in general, most companies do not have accurate methods for determining the actual source of shrinkage. The following information, therefore, is based on their opinions: The participating food retailers attribute 54% of their inventory shrinkage to employee theft, 22% to shoplifting, 16% to vendor theft, and 8% to errors in paperwork and accounting procedures.

Sixty-five percent of the respondents believe that most shoplifters intended to shoplift before they entered the store, while 35% thought the decision was made after they were in the store.

Participants indicate several courses of action they consider most effective in reducing shrinkage in their companies. The most common method was to improve employee education and increase awareness of loss prevention (85%). Another 63% believe improved personnel screening to be beneficial. The results are not surprising, as the companies blame over half of their shrinkage on employee theft. Respondents attribute the smallest portion of their shrinkage to faulty paperwork.

Security Expenditures

The money spent in 1983 on security and loss-prevention staffing, equipment, and programs totaled $91 million. This represents 0.3% of sales, a decrease from the 0.4% spent in 1982.

More than half of most companies' security expenditures were for personnel; on the average, 20% went to payroll other than guards (security management and administration personnel), 17% for hired guards, and 16% for employee guards. Expenditures for electronic surveillance equipment, including tags, averaged 15% of the respondents' security budgets. An additional 6% was spent on physical facilities; 14% went for outside detective/shopping services, and almost 10% was allocated to training and incentive programs.

Shrinkage Control Practices

Mirrors, the most frequently utilized security devices, were employed by 89% of the companies. Two other widely used devices were locked or limited-access areas and guards. Each was cited by close to three-fifths of the companies. Electronic tags (67%) and limited-access areas (31%) were judged to be the most effective by the companies reporting their use. Although so many use mirrors, none considers them to be the most effective selling-floor device for loss prevention. Forty-two percent of the users actually believe they are the least effective.

Apprehension and Prosecution

On the average, nearly three-quarters of those apprehended were attributed to customers; the remainder were employees. Of the customers, 56% were attributed to males. A slightly smaller percentage of employees apprehended were attributed to males (54%).

The largest proportion of customer and employee apprehensions was attributed to the young adult (18-35) age group for both males and females. The majority of customers apprehended were employed—62% for males, 57% for females.

Overall, those companies reporting data prosecuted an average of 45% of all individuals apprehended in their stores. Of these, 98% resulted in convictions. Of the 85,796 apprehensions reported, five out of every 10,000 resulted in false-arrest suits against the companies.

Staffing Practices

Forty-two percent of the responding food retailers report having more than 20 full-time security personnel. Less than one-third of the companies have fewer than five full-time security employees. As expected, the number of employees in the security function varies with company size, all of those with sales of less than $100 million have fewer than 50 full-time security personnel, while almost three-quarters of the companies with sales in excess of $500 million employ more than 50.

Hiring Practices

More than 90% of food retailers most frequently use a background check (e.g., employment experience, education, and personal references) for screening all new personnel. Eighty-four percent require security people to undergo a security interview, while 37% require them for nonsecurity personnel; 60% require credit checks for security personnel (28% for nonsecurity personnel). Food retailers believe that significant retail experience is more important than either a law-enforcement background or college education when evaluating new hires for their security operations.

More than three-fourths of food retailers use polygraph tests. Of those not using the test, the reason most often cited (67%) was union agreements. Of the companies using the test, 24% use it as a pre-employment screening device, and 95% administer it on an exception basis.

Personnel Training Policies

Almost all of the food retailers responding to the survey have a security and loss-prevention orientation program for both their security and nonsecurity personnel. Ninety-five percent use some method of formal training in techniques of loss prevention and security for their new security personnel. These include in-store training (86%), training manuals (82%), films (82%), and formal classes (68%).

Most companies (93%) conduct training programs for their nonsecurity personnel. In-store training programs were most frequently used by 81% of the food chains. Training manuals (78%) and formal classes (56%) were the next most popular methods.

Reward and Recognition Programs

Sixty-three percent of the participating food retailers have formal reward or recognition programs for employees instrumental in controlling shrinkage. Forty-four percent provide monetary rewards to employees who help to reduce shrinkage or help in the apprehension of individuals who steal.

Organization Reporting

Responses to new questions in this year's study reveal that most food retailers' loss-prevention chiefs report to an operating executive. The next most frequently cited executive was the president. Other relationships cited included reporting to the chief financial officer, the controller, members of the human-resources staff, and the company counsel.

At the store level, 71% of the respondents said the security manager reports to the corporate loss-prevention chief. In only 10% of the companies did the in-store security manager report to the store manager. Thus, in most companies, the in-store security manager is independent of the local store manager.

Table 34

Food Retailers:
Percentage of Participants by 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Under $100 Million	44%	20%	50%	50%
$100 to $499 Million	34	50	50	50
Over $500 Million	22	30	0	0

Table 35

Food Retailers:
Percentage of Participants by Loss-Prevention Expenditures as a Percentage of 1983 Sales Volume and Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Less than .1%	50%	30%	0%	0%
.1% to .24%	25	30	0	0
.25% to .49%	0	20	0	0
.5 to .99%	25	10	100	100
1% or More	0	10	0	0

Table 36

Food Retailers:
Security Devices Used on the Selling Floor by Shrinkage Percentage

	Shrinkage Percentage			
	Under 1%	1% to 1.9%	2% to 2.9%	3% and Over
Mirrors	78%	100%	50%	100%
Limited-Access Areas	44	60	0	100
Observation Booths	22	40	0	50
Visible TV Cameras	56	60	50	50
Concealed TV Cameras	44	50	100	50
Electronic Tags	11	10	0	0
Point-of-Sale Systems	56	40	0	50
Guards	44	70	50	50
Lock-and-Chain Devices	44	80	50	50

Skimming the Scanner

A combination of good hiring practices, careful supervision, and alert employees has helped a Midwest supermarket chain to cut its shrinkage to 0.5% of sales against an industry average of about 1.3%.

The security director is naturally proud of what he calls his company's "remarkable" record. Employee alertness, for example, resulted in two cashiers being apprehended for collusion with customers.

In one instance, the cashier was paying off her baby-sitter by undercharging for her groceries. Instead of running all the items over the electronic scanner to ring up each item, the cashier lifted most of the items over the glass scanner so it wouldn't register.

"Our sack boy became suspicious when he packed six bags of groceries and noticed the charge was only a little over $5," says the security director. "It should have come to about $70."

The sack boy informed the manager, who notified security. "I pulled the girl aside after her shift," he recalls, "and told her we heard a rumor about her activities. I gave her the choice of calling in the police or taking a polygraph test. According to our labor attorney, this is perfectly legal under the terms of our employee agreement, which everyone has to sign. She took the test and gave us a statement."

She admitted to giving her baby-sitter more than $1,100 worth of groceries over a period of time. She made restitution for the entire amount in one lump sum. It came out of her profit-sharing, which she received on dismissal.

In the other case, a woman was allowing a young man to buy cigarets and beer without charging for them. She would ring up the other groceries. He would wait until her line was not busy, sometimes ignoring other checkout lines that were not crowded. "He even once asked the manager when she was on duty," the security director states.

Two other employees noticed his actions and reported the situation. "It took us a month to actually catch them at it, but we wanted to get restitution, or we would have just called her in and told her to stop it."

When the director was sure he had the pair, he took them both to the office. The tape showed what she had rung up, and the bags showed what he had purchased.

"He denied knowing anything about it, and there was nothing we could do. She claimed this was only the second time she had done it. She signed the statement to that effect, then we gave her a polygraph. On the basis of that, she broke down and confessed she had been undercharging him for six months, amounting to close to $900."

The woman is paying back the chain $15 a week. "We have to show our employees that stealing will cost them more than their jobs," says the security man. "We want them to know that no one gets away with it. That it will come out of their pocketbooks."

He feels that restitution is "really the most severe punishment. The police don't like to arrest employee thieves. They think it's an internal matter. But we'll threaten arrest if we don't get restitution. On the other hand, if they keep up their payments, we'll not hinder their getting another job. We just put on the employment record: 'Violation of store procedures.' " Another step the company takes to prevent theft is to let employees go as soon as they give notice they are leaving. "We pay them for the week they give notice, but we don't want them around. We've had several occasions when the person stole merchandise or cash on the last day."

He says even though the company tries to handle these problems quietly, the other employees find out quickly. "I always insist you don't have to put anything on the bulletin board. Employees know about these things before you could pin them up."

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